



# Sempra Energy Compensation Committee Charter

The Compensation Committee is a committee of the Board of Directors of Sempra Energy. Its charter was adopted by the board on December 2, 2003.

## I. Purpose and Responsibilities

The purpose of the Compensation Committee of the Board of Directors is to assist the board in discharging the board's responsibilities relating to the evaluation and compensation of executives. It establishes the corporation's compensation principles and policies and designs and oversees the corporation's executive compensation program. It has direct responsibility to:

- Review and approve corporate goals and objectives relevant to chief executive officer compensation.
- Evaluate the chief executive officer's performance in light of the corporate goals and objectives approved by the committee.
- Determine and approve (subject to ratification by the board acting solely through the independent directors) the chief executive officer's compensation level based on the committee's performance evaluation.
- Make recommendations to the board with respect to a non-chief executive officer compensation program, incentive-compensation plans and equity-based plans.
- Produce a committee report on executive compensation as required by the Securities and Exchange Commission to be included in the corporation's proxy statement.
- Perform the other duties enumerated in this charter or otherwise delegated to the committee by the board.

## II. Structure

### 2.1 Membership

The committee consists of no fewer than three members of the board. The committee's members, including its chair, are appointed by the board upon the recommendation of the board's Corporate Governance Committee. The board, upon such recommendation, also may appoint one or more additional members of the board as alternate members of the committee to replace any absent member at any committee meeting.

Each member and alternate member of the committee must (i) be "independent" within the meaning of the corporation's Corporate Governance Guidelines and the rules of the New York Stock Exchange, (ii) be a "non-employee director" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, and (iii) be an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986.

All committee members and alternate members serve at the pleasure of the board and any member or alternate member may be removed, with or without cause, by the board.

## **2.2 Power and Authority**

In addition to the powers and responsibilities expressly delegated to the committee in this charter, the committee may exercise any other powers and carry out any other responsibilities from time to time delegated to it by the board.

The powers and responsibilities delegated to the committee may be exercised in any manner the committee deems appropriate (including delegation to subcommittees) and without any requirement for board approval except as otherwise specified in this charter or the board's delegation. Any decision by the committee, including any decision to exercise or refrain from exercising any of its delegated powers, is at the committee's sole discretion. While acting within the scope of the powers and responsibilities delegated to it, the committee may exercise all the powers and authority of the board and, to the fullest extent permitted by law, has the authority to determine which matters are within the scope of its delegated authority.

## **2.3 Compensation Consultants and Other Experts and Advisors**

The committee has the sole authority to retain and terminate compensation consultants to assist in the evaluation of director, chief executive officer or senior executive compensation, including sole authority to approve the consultants' fees and other retention terms. The committee also has the authority to retain independent counsel and other consultants, experts and advisors (accounting, financial or otherwise) and also may use the services of the corporation's regular counsel or other advisors to the corporation. The corporation will provide appropriate funding, as determined by the committee, for payment of compensation to any such persons retained by the committee.

## **2.4 Procedures**

The committee will determine its own rules of procedure with respect to the scheduling, location and frequency of its meetings. In the absence of such rules, the committee will meet at the call of its chair as appropriate to accomplish the purposes of the committee, but it is expected that the committee will meet at least twice each year.

A majority of the members of the committee will constitute a quorum for the transaction of business. Notice of meetings of the committee will be given as provided in the corporation's bylaws.

Directors who are not members of the committee may attend and observe meetings of the committee, but shall not be entitled to vote. The committee may, at its discretion, include in its meetings members of management, representatives of the independent auditor, the internal auditor, any other accounting or professional personnel employed or retained by the corporation or any other person whose presence the committee believes to be desirable and appropriate. Notwithstanding the foregoing, the committee may exclude from its meetings any non-member who it deems appropriate to exclude.

The chair of the committee will report on the committee's activities to the board at appropriate times and as otherwise requested by the chairman of the board.

## **2.5 Committee Secretary**

The secretary of the corporation will act as the committee's secretary absent the designation of another individual by the committee as its secretary. The secretary will attend all meetings; keep minutes of the committee's proceedings; advise members of all meetings; arrange with the committee chair or other convening authority for preparation and distribution of committee agenda and supporting material for each meeting; at the direction of the committee chair, make logistical and other arrangements for each meeting; and carry out other functions as may be assigned from time to time by the committee.

## **III. Duties**

### **3.1 Executive Compensation Principles and Policies**

The committee is responsible for establishing the corporation's executive compensation principles and policies and designing and overseeing the corporation's executive compensation program.

The committee has developed principles and policies for executive compensation that include the following elements:

- An emphasis on total compensation and "pay for performance" with a substantial portion of total compensation reflecting corporate, business unit and individual performance.
- An emphasis on performance based incentives that closely align the interests of executives with those of shareholders.
- A balance between short term and long term incentives to reward long term strategic results and encourage share ownership.
- An emphasis on placing at risk, through performance based incentives, a greater portion of executive compensation as levels of responsibilities increase.

To reflect these principles and policies the committee establishes base salaries at competitive levels with those of companies of comparable size. It also provides performance based annual cash and equity based long term incentives that provide opportunities to earn total compensation at significantly higher levels for superior performance.

The committee annually will review its principles and policies for executive compensation and related compensation programs in light of the corporation's current and prospective business environment and other relevant factors including, but not limited to:

- The need to recruit and retain executives of outstanding ability and proven experience who demonstrate the highest standards of integrity and ethics.
- The need appropriately to motivate executives to achieve superior performance.
- The need strongly to link executive compensation to both annual and long term performance
- The need to align the interest of executives and shareholders.

### **3.2 Evaluation and Compensation of the Chief Executive Officer**

The committee annually will review and approve corporate goals and objectives relevant to chief executive officer compensation. These will be based primarily upon objective criteria including business performance, accomplishment of strategic and financial objectives, development of management and other matters relevant to the short term and long term success of the corporation and the creation of shareholder value.

The committee will evaluate the chief executive officer's performance in light of these criteria and report the results of its evaluation to the board for the board's consideration. The results of the committee's evaluation and the board's consideration will be communicated to the chief executive officer.

Based upon this evaluation and subject to ratification by the board acting solely through the independent directors, the committee will determine the chief executive officer's compensation level, including base salary and performance standards and awards under annual and long term incentive plans. In determining the long term component of the chief executive officer's compensation, the committee will consider the corporation's

performance and relative shareholder return, the value of incentive awards to chief executive officers at comparable companies and the awards given to the corporation's chief executive officer in past years.

### **3.3 Evaluation and Compensation of Other Corporate Officers**

The committee also will recommend a compensation program to the board and oversee the evaluation and compensation of other officers and key management personnel.

It will annually determine the composition of a group of additional senior officers whose members will constitute those additional officers whose compensation will be determined by the committee. The additional senior officer group will include the chairman and the president (if such positions are not also held by the chief executive officer), each group president and each executive vice president of the corporation and each other senior officer designated by the committee.

In consultation with the chief executive officer, the committee annually will review and approve the compensation level, including base salary and performance standards and awards under annual and long term incentive plans for each member of the additional senior officer group. The committee also will review the compensation of those corporate officers and other key management personnel (as determined by the committee) who are not members of the additional senior officer group.

### **3.4 Benefit Plans and Programs**

The committee will review and recommend to the board any additional benefit plans and programs that primarily benefit officers of the corporation and any amendments to any such existing or additional board approved plan unless the terms thereof permit amendment by the committee.

The committee will also review and recommend to the board any additional "qualified" broad based benefit plans and programs and any amendments to any such existing or additional plan or program and all other compensation proposals that require board approval.

### **3.5 Succession Planning**

The committee, together with the chairman of the board, annually will report to the board on succession planning, including principles for executive officer selection.

### **3.6 Director Compensation and Benefit Plans**

The committee annually will review and make recommendations to the board regarding compensation and benefit plans for non-management directors.

### **3.7 Other Duties and Responsibilities**

(a) The committee will review and recommend to the board all employment, severance or other employment related agreements or special compensation arrangements for corporate officers.

(b) The committee annually will monitor compliance by directors and officers with the board's share ownership guidelines.

(c) The committee will provide the corporation with the report of the committee with respect to executive compensation required for inclusion in the corporation's proxy statement.

## **IV. Communications from Shareholders, Employees and Others**

Shareholders, employees and other interested persons who wish to communicate with the committee may do so by writing to the committee care of the corporation's corporate secretary who will relay the letters unopened to the chair of the committee.

## **V. Committee Self-Evaluation and Charter Review**

The committee will evaluate its own performance on an annual basis, including its compliance with this charter. It will also review this charter and provide the board with any recommendations for changes in the charter or in policies or other procedures governing the committee.

## **VI. Charter Availability**

This charter will be posted on the corporation's investor website, and the posting and the availability of printed copies to requesting shareholders will be published in the corporation's Annual Report on Form 10-K.